

Master Document – Audit Planning

Activity Code 17610	Financial Capability, Modified Financial Condition Risk Assessment
Version 2.0, dated April 2004	
B-1	Planning Considerations
Purpose and Scope	
<p>The objective is to perform a modified risk assessment as addressed in CAM 14-303 and 304. A modified risk assessment consist of the calculation and analysis of the trend of the contractor's key financial ratios shown in CAM 14-304 and an analysis of any significant events of which the auditors become aware that would impact the contractor's financial status.</p>	
References	
<ol style="list-style-type: none"> 1. DFARS 232.072, "Financial Responsibility of Contractors" 2. SAS 59, "The Entity's Ability to Continue as a Going Concern" 3. CAM 14-304, in CAM Chapter 14 "Financial Condition Risk Assessment Procedures" 	

B-1	Preliminary Steps
Version 2.0, dated April 2004	WP Reference
<ol style="list-style-type: none"> 1. Check the permanent files for prior financial capability audits or risk assessments. Evaluate the audit opinion or memorandums for record to determine if financial distress exists. If the prior audit report had an unfavorable or adverse opinion, a modified risk assessment cannot be performed. If the prior year audit opinion is acceptable or a detailed risk assessment disclosed no significant indicators, then the modified risk assessment should be performed. Note: In accordance with CAM 14-303, a modified risk assessment can be performed only two years in a row. The third year, a detailed risk assessment should be performed. 	
<ol style="list-style-type: none"> 2. Conduct an entrance conference with the contractor in accordance with CAM 4-302. 	
<ol style="list-style-type: none"> 3. Obtain a copy of the contractor's last fiscal year end financial data and the quarterly interim data (if more than one quarter has passed). Ask 	

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<p>the contractor if there are any significant events that have occurred (sale of a division, loss of a contract, large layoff, new contract, buying larger plant, etc.). Since this is a modified risk assessment, a detailed risk assessment/audit or modified risk assessment had to have been performed in the previous year so prior year financial data should already be included in a spreadsheet.</p>	
<p>4. Input the last year and interim year-to-date quarterly financial statement data (if more than one quarter has passed) into an Excel workbook. If the Excel workbook is available from the prior assignment, it may be copied into and used in the assignment. An Excel workbook which calculates financial ratios is available on the Eastern Region website. Use of that workbook is not required, but should improve the efficiency and effectiveness of the modified risk assessment.</p>	
<p>5. Calculate the contractor's key financial ratios shown in CAM 14-304. The Excel workbook should calculate the ratios for the working papers. Per CAM 14-304c.(1), a comparison to industry averages does not need to be performed for a modified risk assessment.</p> <p>Once the financial data is input into the workbook and the key financial ratios are calculated, analyze the trends of the ratios for significant unfavorable changes related to financial distress. This may involve an analysis of the trends of the financial statement data that is used to calculate the ratios. Compare the contractor's current financial data to its own historical data, available in prior year financial capability audit files. Current company ratios should not be compared to industry average ratios.</p> <p>Document whether there are any significant unfavorable or adverse trends that would have an impact on the contractor's financial status that require the performance of a detailed financial condition risk assessment.</p>	
<p>6. Analyze any significant events of which the auditor becomes aware that would impact the contractor's financial status (newspaper article, loss of a contract, major layoff, sale of a division, etc.). This may include discussion with the supervisor or auditor that normally works at the contractor location. Look at the audit lead sheet file or ICQ/ICAPS Summary.</p> <p>Document any significant or unfavorable events that may have an impact on the contractor's financial status that require the performance of a detailed financial condition risk assessment.</p>	
<p>7. In planning and performing the modified risk assessment, consider the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:</p> <ul style="list-style-type: none"> • Listing of Fraud Risk Indicators, Financial Capability 	

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<p>Audits (See APPS Other Audit Guidance Folder for FINCAP-Listing of Fraud Indicators.doc)</p> <p>Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p>	
<p>8. If significant unfavorable or adverse trends or events exist, close this assignment. A detailed risk assessment should be performed using the 17600 DMIS code and the APPS 17600 audit program, Financial Capability Audit. Coordinate with your Supervisory Auditor, discussing the results of the modified financial condition risk assessment and the need to perform a detailed financial condition risk assessment.</p>	
<p>9. If no significant unfavorable or adverse trends or events exist summarize the results of the modified risk assessment in a Memorandum for Record.</p>	

C-1	Detailed Steps	
Version 2.0, dated April 2004		WP Reference
<i>Auditor will develop steps.</i>		
1.		
2.		
3.		
4.		

A-1	Concluding Steps	
Version 2.0, dated April 2004		WP Reference
1. Summarize the results of the modified risk assessment in a Memorandum for Record if no significant unfavorable or adverse trends or events exist. Paragraph 1 is exactly the same as the Subject of Modified Risk Assessment on W/P A-1 and Paragraphs 2 and 3 are exactly the same as the Results of Modified Risk Assessment on W/P A. Once these are updated they, may be copied into the draft memorandum. <i>[If results of this limited evaluation indicate that a detailed financial</i>		

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<i>condition risk assessment needs to be performed, close this assignment and begin a new Working Paper Assignment using a different 17600 code for Financial Capability.]</i>	
2. Coordinate results of modified risk assessment with technical specialist and Supervisory Auditor.	
3. Inform the contractor we are closing our evaluation without further audit and report will not be issued	
4. If the modified risk assessment is performed at a corporate office, distribute a copy of the Memorandum for Record to all FAOs in the CAC network. Include a transmittal letter advising that the memorandum contains sensitive information and should not be released outside of DCAA.	
5. Update permanent files.	
6. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:	
a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.	
b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.	
c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.	
d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as	

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appropriate.	
e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.	
f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.	
g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.	
h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.	
i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.	
j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.	
k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User	

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Guide).	
m. <u>Do Not File Sensitive Audits in iRIMS</u> : Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.	